



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 14, 2004

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley   
Auditor-Controller

SUBJECT: **SURVEY OF COUNTY CONTRACTORS THAT HAVE THE AUTHORITY  
TO AUTHORIZE COUNTY PAYMENTS – STATUS REPORT**

On January 6, 2004, your Board directed my office to report back in February 2004, and quarterly thereafter, on the status of our review of County departments and districts with contractors that have the ability to authorize and approve County warrants.

As previously reported to you, six departments self-reported that they have contracts among 15 programs where the contractors have the ability to authorize and approve County warrants (see Attachment I.) We have previously reported on five of these programs disclosed in response to the survey.

**Review Summary**

In this period, we completed a review of two additional programs and the results of our review follow.

**District Attorney – Bad Check Diversion Program**

The District Attorney (DA) contracts with American Corrective Counseling Services (ACCS) to provide a Bad Check Diversion Program (Program) within the County. Under its agreement with the DA, ACCS receives, reviews, and processes complaints, primarily from merchants, that have received bad checks and, where appropriate, refers cases to the DA for criminal prosecution. Once a complaint is received, ACCS attempts to locate and make contact with the maker of the bad check. To the extent ACCS is able to recover funds, restitution is paid to the claimant. Cash and checks collected by ACCS are deposited into a County trust account. Amounts to be paid to claimants are transferred from trust to a separate County revolving checking account via trust warrant.

An ACCS Accounting Supervisor and an ACCS check signor review each restitution check and the underlying documentation. On average, each month, ACCS receives approximately 8,000 complaint claims and issues approximately \$250,000 in restitution payments to claimants.

In addition to the amount of the bad check, the maker of the bad check must also pay an administrative fee and a fee for a bad check diversion class. These fees are split between ACCS and the DA. The distribution of these fees from trust is performed by County personnel.

There are currently no on-going monitoring activities to ensure that individual claims are properly processed, and that the correct amounts collected are remitted to the victim. Interviews with the DA and ACCS personnel disclosed that the DA's oversight role of this program is limited to the biennial completion of the Cash Controls section of a County Internal Control Certification Program (ICCP) instrument related to ACCS' operations. The DA also receives and reviews bank reconciliations prepared by ACCS for the two County accounts used to make deposits and payments under this program. The DA also independently receives a copy of the bank statements for these accounts, which it reconciles.

Section 7.11 of the DA's contract with ACCS gives the County the authority to conduct monthly and annual audits of ACCS. To provide the County with greater assurance that all claims received under the Bad Check Diversion program are processed and restitution amounts paid are appropriate, the DA, or a contracted Certified Public Accountant, should conduct the audits referred to in the contract. The audits should review and evaluate the internal control systems of ACCS, including accounting controls over cash receipts and disbursements, and test a sample of transactions to evaluate compliance with established controls.

Because the DA has agreed to enhance its oversight of the contractor through these audits, we do not recommend the County terminate the contractor's ability to issue payments.

### **Recommendation**

- 1. The DA either conduct, or hire a Certified Public Accountant to perform the audits referred to in the DA's contract with ACCS.**

### **Child Support Services Department – Fiscal Agent Services Agreement**

The Child Support Services Department (CSSD) contracts with ACS State and Local Solutions (ACS) for Fiscal Agent Services, collecting and recording child support payments received from non-custodial parents onto the ACSES Replacement System (ARS). ACS enters collection information into ARS and deposits the corresponding funds into a County trust fund. ARS sends an electronic payment file to the Auditor-

Controller who issues County warrants to the custodial parent using funds from the trust fund.

On average, monthly ACS receives and processes in excess of 190,000 payments from custodial parents totaling approximately \$32.5 million. ACS is also responsible for performing other activities under its contract with the County, such as providing court testimony as the custodian of records concerning specific payment and obligation data.

CSSD's oversight of ACS' Fiscal Agent Services activities includes a biennial assessment of the controls over ACS' Lockbox and Cashiering Sections, using the Cash Controls section of the County Internal Control Certification Program (ICCP) instrument. In addition, our office, as required by the Welfare and Institutions Code, retains a Certified Public Accounting firm on a biennial basis to evaluate the accuracy of the records, controls and procedures of ACS. CSSD also periodically evaluates whether or not ACS has adequately provided the services identified in the Performance Requirements Summary of the contract.

Within the last year, two payment frauds involving ARS were investigated by our Special Investigations Unit (SIU). No ACS personnel were involved with either fraud. One fraud involved a CSSD employee who was able to change case addresses on ARS. A second fraud involved a CSSD employee that accepted cash payments from non-custodial parents, diverting the payments for personal use and updating ARS to reflect the settlement of amounts owed. In both instances an absence of sufficient internal controls was the primary cause of the frauds.

CSSD management stated that, in response to the frauds, committed by CSSD staff, they have taken certain actions to enhance internal controls. For example, management developed reports which match the addresses of ACS and County employees to addresses of payments issued, and other reports with identify multiple warrants issued to the same address. However, CSSD management also stated that a large number of both ACS and CSSD employees continue to have the ability to make changes to various case information on ARS, including changes to addresses.

The Department and the Auditor-Controller believe a comprehensive review of the internal and system controls over ARS is warranted. However, the Department is concerned that the costs of this review may not be eligible for State reimbursement, but has agreed to discuss this with the State. If the costs are not eligible for State reimbursement, the Department should work with the Chief Administrative Office to identify funding. CSSD will report back to your Board with a plan for funding this audit within 60 days.

We do not recommend the Department bring the Fiscal Agent function in-house for several reasons. The software applications used in this process are proprietary to the contractor. Prior to assuming responsibility for the function, the Department would need to develop its own software applications, or negotiate purchase of an application. In addition, when the comprehensive review of internal controls and systems controls is

completed and corresponding recommendations implemented, there should be adequate controls to ensure the integrity and propriety of transactions.

**Recommendation**

- 2. CSSD report back to the Board with a plan for funding a comprehensive review of the internal and system controls over ARS within 60 days.**

**Additional Action**

Seven of the eight remaining programs identified in our survey are those in which the County contracts with third party administrators (TPAs) for claim processing (e.g., workers' compensation, dependent/healthcare flexible spending accounts, medical malpractice, etc.) These pose less financial risk to the County because the contractor only has access to a checking account and not the Treasury pool. The accounts are also subject to review by County personnel. Therefore, we will add these to our future audit plans and report on our reviews of these programs individually, as we complete them. Our final report, which will be provided to your Board no later June 30, 2004 will address our findings and recommendations related to the remaining program identified in the survey, the CalWORKs Stage 1 Child Care contracts.

If you have any questions, please contact me, or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:DR:JK:MM

Attachment

- c: David E. Janssen, Chief Administrative Officer  
Philip L. Browning, Director, Department of Child Support Services  
Steve Cooley, District Attorney  
Michael J. Henry, Director of Personnel, Department of Human Resources  
Bryce Yokomizo, Director, Department of Public Social Services  
Violet Varona-Lukens, Board of Supervisors Executive Office  
Public Information Office  
Audit Committee

**Schedule of Review Status**  
**Countywide Survey of Contractors Authorizing County Payments**

<b>Program/Activity/Function (Responsible Department)</b>	<b>Review Status</b>	<b>Contractor Name(s)</b>
1. Refugee/Immigrant Training and Employment Program (RITE) - (DPSS/DCSS)	Completed	Various
2. Greater Avenues for Independence (GAIN) - (DPSS)	Completed	MAXIMUS and ACS State and Local Solutions
3. Refugee Employment Program - (DPSS)	Completed	9 Community Based Organizations
4. Homeless Prevention Services - (DPSS)	Completed	LAHSA
5. Capital Projects Management - (DPW)	Completed	Daniel, Mann, Johnson and Mendenhall + Harris
6. Fiscal Services Agent Contract - (CSSD)	Completed	ACS State and Local Solutions
7. Bad Check Diversion Program - (DA)	Completed	American Corrective Counseling Services, Inc.
8. CalWORKs Stage 1 Child Care - (DPSS)	In Progress	13 Alternative Payment Providers
9. Pension Savings Plan - (DHR/CAO)	Audit Plan	Management Applied Programming
10. Dependent/Health Care Spending Account - (DHR)	Audit Plan	Mellon - Ceridian
11. Workers' Compensation Claims Administration - (CAO)	Audit Plan	Tristar Risk Management Services, Cambridge Integrated Services Group, Inc., Crawford Company
12. Long Term Disability Claims Administration - (CAO)	Audit Plan	VPA, Inc.
13. Auto and General Liability Claims Administration - (CAO)	Audit Plan	Carl Warren and Company
14. Medical Malpractice Liability Claims Administration - (CAO)	Audit Plan	Octagon Risk Services, Inc.
15. Deferred Compensation Plans - (CAO)	Audit Plan	Great West Life and Annuity